

## AirAsia India 2017

On September 20, 2017, Tony Fernandes, CEO of the Air Asia Group of companies, had to decide whether to go ahead and harness the opportunities provided by the new National Civil Aviation Policy<sup>1</sup> (NCAP) unveiled by the Ministry of Civil Aviation<sup>2</sup> (MCA) (see Exhibit 1 for the details about the National Civil Aviation Policy 2016).<sup>i</sup> The policy changed the restriction of the 2004 policy that the airline should have five years of domestic flying experience before entering international markets. Operating international flights was more lucrative than domestic routes owing to the price difference between domestic and international aviation turbine fuel. To respond positively to the new opportunity, Fernandes had to increase his fleet size from 11 to 20. He was not sure whether it was worth its while, as AirAsia India (AAI), was still struggling to achieve breakeven traffic. Fernandes had expressed interest in starting international flights from the southern part of India, within a four-hour circle, to destinations in Africa and on the Gulf routes like Doha, Nairobi, Maldives, Karachi, Bangladesh and some Chinese cities.<sup>ii</sup> However, he was not sure whether his company's entry into the international market would be competitively superior in view of the likely response of already entrenched players like Indigo, SpiceJet and Jet Airways. Indian Airlines<sup>3</sup>, the erstwhile national carrier had already merged with Air India to provide global connectivity.

### FERNANDES

Fernandes, a resident of Malaysia, was the vice-president of Warner Music of South East Asia, before venturing as an entrepreneur into the aviation business. His mother's ancestors were from Kerala.<sup>iii</sup> His father, a Goan<sup>4</sup>, was a doctor by profession and was placed in Malaysia while working for the World Health Organization. In March 2016 he applied for Overseas Citizen of India (OCI) status and became an OCI in June 2016.<sup>iv</sup> The Government of India (GOI) had started its OCI scheme in August 2005. OCI status was granted to people of Indian origin who were citizens of other countries. It had the same benefits as Non-Resident Indians (NRI). Indian law allowed NRIs to hold 100% investment in an airline through the automatic clearance route. Fernandes and his team had acquired a sick airline in Malaysia and transformed it into a profitable low-cost airline (see Exhibit 2 for the background of the team members). He also appointed Conor McCarthy, the former director of group operations of Irish based low-cost carrier Ryanair airline as the non-executive director of AirAsia Sendirian Berhad (AAB). Fernandes was familiar with the Indian

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<sup>1</sup> The National Civil Aviation Policy is the set of aviation guidelines and regulations prepared by the Ministry of Civil Aviation, Government of India in 2016.

<sup>2</sup> The Ministry of Civil Aviation is responsible for preparing the policies for the growth and regulation of civil aviation.

<sup>3</sup> Indian Airlines, the national carrier of India was the first airline to start international operations.

<sup>4</sup> Goa is the smallest state in India. People who live in Goa are known as Goans.

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Cases of the Indian Institute of Management, Ahmedabad, are prepared as a basis for class discussion. They are not designed to present illustrations of either correct or incorrect handling of administrative problems.

business environment as he had transacted business with Indian music companies like T-series<sup>5</sup> and Tips<sup>6</sup> while working as Vice President at Warner music.

## THE GROUP

The AirAsia group of companies consisted of AirAsia Sendirian Berhad (AAB)<sup>7</sup>, its subsidiaries, and low-cost airlines in Thailand, Indonesia, Philippines, Japan and India. It had promoted its long-haul international flight under the brand AirAsia X (AAX) in 2007. AAB had a sister company Tune group that had ventured into hotels, financial services, payment systems, travels and retail services.

Fernandes acquired AAB in December 2001 at a token price of one RM<sup>8</sup> (Malaysian Ringgit). AAB was established in 1993 in Malaysia as a subsidiary of Heavy Industries Corporation of Malaysia (HICOM), a Government-linked organisation in the field of heavy industries, to operate on specific regional routes and complement the functioning of Malaysian Airlines (MA), a full-service national carrier, started in 1947. AAB started as a chartered flight operator from Kuala Lumpur, the capital of Malaysia, to Pattaya, a city in Thailand. In 2001, AAB's revenue was RM 168 million with a loss of RM 8,714.<sup>v</sup>

Fernandes, as the leader, took all major decisions after acquiring the airline. He repositioned AAB as a "Low Fare No Frills" airline under the brand AirAsia with the tagline "Now Everyone Can Fly".<sup>vi</sup> AAB did not offer complimentary drinks or meals on the flight. It provided limited freight, courier, mail and carrying service on its flights. It charged for every additional service like preferred seat, baggage, food and others. The airline had a quick turnaround time of about 25 minutes. It also offered a point-to-point network. Most of its flights were short-haul (three hours or less). Fernandes strengthened the existing senior executive team by hiring executives from other industries. All the staff shared the same office and was encouraged to give suggestions to increase productivity. The airline provided extensive training to the employees in their respective areas.<sup>vii</sup> It also injected new skills to develop competencies. AAB founded the AirAsia Academy that provided an opportunity to employees to train as pilots. They were allowed to meet each other, and share problems and suggestions irrespective of hierarchy and positions. AAB developed a strong team-focused work culture. Employees understood the key strategy of the airline and focussed on the airline's strategy of keeping low costs and output high.

It provided one single class with an increased seating capacity of 148 and started its scheduled operation in January 2002 from Kuala Lumpur to Penang, an island in Malaysia, with a fare of RM 39 against the bus fare of RM 40.<sup>viii</sup> Its tickets were priced 50% lower than its major competitor, MA. It followed the routes of MA and provided heavy discounts. While customers could book their tickets through various channels, such as agents, call centres, etc., AAB offered the lowest prices if customers booked through its website. In April 2002, it became the first airline in Asia to go paper-less (e-tickets) and saved administrative and other expenses. Most of AAB's employees and top executives had been with the company from the beginning and worked together to make it profitable within 18 months of its operation. By June 30, 2003, the airline had reported its first profit. AAB

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<sup>5</sup> T-series was the largest music, film production and distribution company in India.

<sup>6</sup> Tips was a famous music and film production firm in India.

<sup>7</sup> The Sdn Bhd meant incorporated in Malaysian language.

<sup>8</sup> Malaysian Ringgit (RM) was the currency of Malaysia. 1 RM was equal to approximately INR 15 as on December 5, 2016.

initially relied on local financial institutions to meet its working capital and other financial needs. In October 2004 it came out with its Initial Public Offering (IPO). In 2006, Malaysia built its first low-cost terminal in its capital. AAB could use the newly built low-cost terminal<sup>9</sup> in Kuala Lumpur airport which helped the airline to reduce its operational costs. AAB earned a profit of RM 72,609 million in 2015 (see Exhibit 3 for a summary of the financial performance of AAB during 2013, 2014, and 2015). By 2016, it had a market share of about 49%.<sup>ix</sup>

## INTERNATIONALISATION INITIATIVES

Fernandes extended his concept of a low cost and no-frills airline to neighbouring countries and beyond, and gained an international foothold through joint ventures and alliances in Thailand, Indonesia, Philippines, Japan and India. He also started AAX, a low-cost, long-haul flight with the objective to strengthen its presence internationally.<sup>x</sup> (See Exhibit 4 for details of entry into other countries.)

## ENTERING INDIA

India was the fifth country AAB entered. In 2010, AAX had begun flights from Kuala Lumpur to Trichy and most of the metros in India. It had started flights to Bangkok through Chennai and Kolkata. In 2012, it discontinued flights to Delhi and Mumbai because of high airport charges.<sup>xi</sup>

On September 14, 2012, the GOI declared that foreign carriers would be permitted to invest 49% in domestic carriers.<sup>xii</sup> Foreign players would be required to take the approval of the Foreign Investment Promotion Board (FIPB) and obtain the security clearance from the Home Ministry before investing in a domestic carrier. Fernandes had appreciated the move by the Indian Government and visited India in December 2012 to figure out the possibility of starting a joint venture in India.<sup>xiii</sup>

On February 20, 2013, AirAsia Investment submitted its application to the FIPB, the decision-making body for Foreign Direct Investment (FDI) in India, for the approval of the joint venture. On March 6, 2013, the FIPB cleared the proposal and allowed the airline to complete the rest of the formalities. AirAsia India Private Limited (AAI) was established on March 28, 2013 through a joint venture between AirAsia Investment Limited, Tata Sons and Telestra Tradeplace Pvt. Limited. AAI applied for a No Objection Certificate (NOC)<sup>10</sup> from the Ministry of Civil Aviation (MCA). In May 2013, MCA raised questions about the company not mentioning the names of the senior executives, which was a compulsory requirement for getting security clearance (for getting the NOC) from the Union Home Ministry<sup>11</sup>. Fernandes had recruited the CEO and Chairperson for AAI but had not mentioned their names while applying for the NOC. AAI promoters applied to the Directorate General of Civil Aviation (DGCA), for the Air Operating Permit Certificate, so that they could start their operations. In July 2013, Subramanian Swamy, an Indian politician, filed a petition in the Supreme Court of India, the highest legal authority, against AAI for violating the foreign investment policy and appealed to have their licence cancelled.

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<sup>9</sup> The low-cost terminal was a budget terminal developed to cater to the requirements of budget carriers.

<sup>10</sup> No Objection Certificate was the first clearance by the Ministry of Civil Aviation given to an airline for operating in India. The Ministry of Civil Aviation was responsible for policy formulation in civil aviation.

<sup>11</sup> The Union Home Ministry was among the most powerful departments in the ministry in the Government of India. The department was responsible for domestic policy and internal security.

Swamy mentioned that FDI was only allowed in the case of an existing carrier as per the September 2012 FDI policy. In August 2013, the Supreme Court directed Swamy to go to Delhi High Court with his petition.<sup>xiv</sup> In October 2013, the Delhi High Court rejected the stay on the AAI launch.<sup>xv</sup> Swamy further approached the Election Commission, the authority that conducted elections in India, to stop the DGCA from giving the licence to AAI. In 2014, the Federation of Indian Airlines (FIA)<sup>12</sup> also appealed to the DGCA to squash the policy of investing in a start-up by foreign carriers. However, DGCA declined their demand.<sup>xvi</sup> These legal hurdles delayed the process of getting clearance for AAI.

On May 7, 2014, AAI got the Air Operator Permit Certificate from the DGCA,<sup>xvii</sup> to which Tony Fernandes tweeted, "History has been made today in aviation. Everything has been hard for AirAsia, but we never gave up. Today AirAsia India has got the approval."<sup>xviii</sup> The promoters of AAI together invested about USD 30 million in which AAB had a stake of 49%, Tata Sons had 30% and Telestra Tradeplace had the balance 21% in the joint venture.<sup>xix</sup> Tata Sons Limited was the promoter of the Tata Group of Companies, a leading multinational conglomerate in India that had a maximum share of the Tata group of companies. The group had its footprints in various industries starting from manufacturing, FMCG (Fast-Moving Consumer Goods), consumer durables, home appliances, services, retail and others. The group had a strong presence in more than 100 countries. It had earned a total revenue of USD 100.39 billion and employed about 695,000 people during 2016-17.<sup>xx</sup> The Tata Group always had an interest in the airline business. In 1932, Tata Sons had founded Tata Airlines Ltd., the first airline in the country. In 1946, the airline became a public company and was known as Air India. In 1948, the GOI acquired the maximum stake in the airline. The group had attempted to start an airline in collaboration with Singapore Airlines, the national carrier of Singapore during the early 1990s, but could not succeed. In 2001, the group had tried to pick up about 40% stake in Air India in collaboration with Singapore Airlines through a disinvestment process, but this was not approved by the DGCA. It had started an airline catering business known as TajSATS, a joint venture between Tata's Taj Hotels and Singapore Airport Terminal Services, an airline catering and ground handling services company in Singapore.

Telestra Tradeplace Private Limited (TTPL), an investment holding company, was started in 2001 by Arun Bhatia. TTPL had also manufactured specific aerospace equipment under its subsidiary company Hindustan Aerosystems. Amit Bhatia, son of Arun Bhatia, had served as a board member of Queens Park Rangers Football Club, a professional association football club of London, in which Fernandes had a stake of 66% during 2011.<sup>xxi</sup>

## EXECUTION OF ENTRY

In April 2013, Fernandes announced the top executives and board members of AAI. Mittu Chandilya joined as the CEO of the airline. He was an MBA from INSEAD, France. He had worked with Ingersoll Rand, an industrial company, in various leadership roles and as Head of Services Practices for the Asia Pacific region in Egon Zehnder International (EZI), an advisory firm.<sup>xxii</sup> The Board of Directors included Subramaniam Ramadorai, Ramachandran Venkataramanan, Bharat Vasani, Arun Bhatia and Fernandes. Ramadorai was the advisor to the Prime Minister of India on the National Council on Skill Development, a skill development programme launched by the GOI. He had also worked as the CEO of Tata

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<sup>12</sup> The Federation of Indian Airlines (FIA) is an association of airlines like Indigo, Jet Airways, SpiceJet and Go Air.

Consultancy Services, the IT division of the Tata group. Venkataramanan was the Executive Trustee of Tata Trusts and was also managing them. He had also worked as an Executive Assistant to Ratan Tata, the former chairman of Tata Sons. Vasani was the legal counsel of the Tata Group. Vijay Gopalan, a certified Chartered Account joined as the Chief Financial Officer (CFO) in August 2013. Gopalan had worked with the India division of Compass Group, a British conglomerate as a finance controller and in Ernst & Young, an audit and advisory firm as a manager. Ratan Tata, Chairman of Tata Sons, joined as the advisor to the board.

### **Route Plan**

AAI had planned to start its operations from Chennai as its primary hub but later moved its base to Bangalore. AAI connected tier-II cities with low and competitive airfares. It provided point to point services with one type of plane - Airbus A320-200<sup>13</sup>. It offered one single class configuration with a seating capacity of 180. It did not provide complimentary food in the flight. It began with two Airbus A320-200 planes. It commenced its first flight from Bangalore to Goa on June 12, 2014, with a promotional fare of below INR 1,000 which was even lower than a bus ride. It added two more routes, Bangalore to Chennai and Bangalore to Kochi, a city in southern India in June 2014. It had plans to connect 13 cities in India by the end of 2014 which eventually did not happen. AAI carried about 0.35 million passengers for the year 2014. It had a total fleet size of three by the end of 2014. It avoided flying to Delhi and Mumbai because of the high airport charges. However, in May 2015, it flew to Delhi and made it the second hub. In April 2015, it withdrew flights from the Bangalore to Chennai route due to heavy operational losses. In May 2015, AAI connected Delhi with Bangalore, Guwahati and Goa. It started flights from Guwahati to Imphal and from Bangalore to Vishakhapatnam. Subsequently, it flew to different destinations within India (see Exhibit 5 for domestic destinations covered by AAI). By April 2016, it had six Airbus A320-200 aircraft for its operations. AAI sold its tickets online and through travel agents. It had introduced productivity-linked bonus to travel agents in 2015 and discontinued in 2016. It paid a transaction fee to the agents for regular tickets.<sup>xxiii</sup> In 2016, AAI promoted its tickets with *Kabali*, a Tamil movie that released in July 2016, in which a popular actor Rajinikanth acted. AAI launched a campaign “fly like a superstar” with fares starting from INR 786 (one way) to various destinations connected from Bangalore or Delhi (see Exhibit 6 for AAI’s promotion campaign). Customers had to buy the tickets between June 27, 2016 and July 3, 2016, for traveling during February 1, 2017 and April 30, 2017. When asked about the slow growth rate of the airline, Fernandes said, “I am not going to storm in like a bull in a China shop as Vijay Mallya did and get caught. Now, we have a (civil aviation) policy and it is very clear on what we have to do. So, talk to us in a few years’ time”.<sup>xxiv</sup>

### **Financial Performance of AirAsia India**

In June 2014, AAI had communicated that it would break even in four months. It extended the period to 12 months, but could still not break even. It had incurred a total loss of INR 210 million in the last quarter of 2014.<sup>xxv</sup> For the entire year 2014, it had suffered a loss of about INR 940 million.<sup>xxvi</sup> In the year 2015-16, it had incurred a loss of about INR 1,820 million. However, for the fiscal year 2016-17, the airline’s loss was INR 1,400 million (see Exhibit 7

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<sup>13</sup> Airbus was a France-based aircraft manufacturing company. A320-200 was a particular aircraft made by Airbus.

for a summary of the financial performance of AAI). During its launch, it had communicated that it would induct six to eight aircraft each year, though by July 2017 it had a fleet size of eleven Airbus A320s. The airline had a market share of about 3% by July 2017.<sup>xxvii</sup> Though the airline had plans to raise money through an Initial Public Offering (IPO) during December 2015, this did not happen because of the conflict between the shareholders.

### **Internal Problems**

The company faced several internal problems while executing the entry – conflict among shareholders, top level exits, and various allegations of wrongdoing.

#### *Conflicts among Shareholders*

While AAI was struggling to get its clearance, one of its partners, Tata Sons, in September 2013, announced its joint venture with Singapore Airlines to establish a full-service airline in India.<sup>xxviii</sup> The initial investment was USD 100 million. The Tatas would have a stake of 51%, with the balance being held by Singapore Airlines. This news created a rift between the shareholders. Bhatia called it unethical and indicated that the Tatas should move out of the venture. The AAI board proposed that Bhatia invest USD 22 million in the airline during August 2015.<sup>xxix</sup> However, Bhatia refused to invest further in the airline citing its poor performance. Tata Sons increased its stake to 41% after Bhatia declined the request. In December 2015, Bhatia accused Fernandes of controlling the airline remotely from Malaysia. He alleged that the airline's major decisions related to accounting, financing, pricing and crew scheduling were taken in Malaysia.<sup>xxx</sup> He alleged that the losses at AAI were due to the third-party brand licensing agreement with AAB which had been entered into in April 2013. AAI had outsourced different services to companies affiliated to and controlled by Fernandes. It had entered into a three-year contract with a Kuala Lumpur-based training institution, Asian Aviation Centre of Excellence, a joint venture between AAB and a civil aviation training institution CAE, for training its employees. AAI outsourced its backend operations to AirAsia Global Shared Services, a subsidiary of AAB and controlled by Fernandes. It paid maintenance and insurance charges to Tune group, a firm owned by Fernandes. Bhatia threatened to drag the airline to court citing violation of Government rules and the civil aviation policy of the Substantial Ownership & Effective Control<sup>14</sup> (SOEC) clause that allowed Indian partners in joint ventures to control the business.

"I am looking for an exit to AirAsia but at a premium. It is business after all. When the airline was conceived, I was told that it would make profits after a year. I want to make money. That's why I invested. But that has not happened," Bhatia said.<sup>xxxi</sup> In March 2016, Bhatia sold his 9.94% stake moved out of the venture. Tata Sons increased its stake to 49% by purchasing a 7.94% stake from Bhatia, while Ramadorai and Venkataramanan acquired 0.5% and 1.5% stakes respectively.<sup>xxxii</sup>

#### *Top-Level Exits*

AAI witnessed a number of departures of its executives in the three years of its operations. Amisha Sethi, an executive scholar from Kellogg School of Management, who had joined as the Chief Commercial Officer in 2013, left the company in 2014. Gaurav Rathore replaced Sethi as the commercial affairs director in February 2014 and worked until December 2015.

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<sup>14</sup> As per the Substantial Ownership & Effective Control clause, the major share and control of the airline should be with the Indian nationals in a joint venture.

Vasani quit his board of director position in November 2015. P K Ghose, former Executive Director & CFO of Tata Chemicals, the chemicals and consumer products company of the Tata group replaced Vasani. Vijay Gopalan, the CFO of AAI quit in August 2014. AAI did not renew the contract of Chandilya that had expired in March 2016. According to Deloitte Touche Tohmatsu India, a UK accounting and audit firm, Chandilya got his personal expenses reimbursed by the company. He also asked the airline to make a payment of INR 220 million to fictitious companies based in India and Singapore.<sup>xxxiii</sup> AAI had paid INR 120 million to HNR Trading, a company in Singapore for liaising with the government. The airline had also paid INR 100 million to Link Media Immigration Services Pvt. Ltd., a company in India, for media services. These companies were not registered with the corporate affairs ministry. Amar Abrol, a Chartered Accountant who had earlier worked as the CEO of Tune Money, a financial product start-up, replaced Chandilya as the CEO in April 2016. Ankur Khanna, a former Air France executive, joined as CFO in April 2016 and left in January 2017.

### *Business Practices*

On October 24, 2016, Tata Sons sacked Cyrus Mistry<sup>15</sup>, who had joined as Chairman in 2012. Soon after, Mistry disclosed the fraudulent activities that had taken place at AAI. AAI had paid about INR 2,480 million to AAB for aircraft leasing and maintenance services, which was 25% higher than the market rate.<sup>xxxiv</sup> Mistry made further disclosures of wrongdoing by sharing an e-mail trail that had been exchanged between the executives of Tata Sons.<sup>xxxv</sup> As per the e-mail trail, Bharat Vasani, the former legal counsel of Tata Sons, had raised issues in 2014 related to corporate governance at AAI with the top executives of the Tata Sons. On June 15, 2015, Vasani had written to Farokh Nariman, the Chief Operating Officer of Tata Sons that AAI had a dysfunctional board and it worked like a department of AAB, not as a joint venture.<sup>xxxvi</sup> Though Vasani had complained about these practices to the Tata Group several times, Tata Sons had not taken any action against AAI.

After Mistry's allegations, on November 4, 2016, Swamy registered a complaint against AAI with the Enforcement Directorate (ED), a law enforcement agency of the GOI, for giving out bribes amounting to INR 220 million to establish the airline.<sup>xxxvii</sup> In December 2016, the ED filed a case of illegal transactions of INR 220 million that had violated the Foreign Exchange Management Act<sup>16</sup> (FEMA). It had investigated the matter and ordered AAI to submit the relevant documents.<sup>xxxviii</sup> It also questioned Ankur Khanna because of his position as finance head though the misconduct had happened before Khanna joined AAI.

## **INDIAN AVIATION INDUSTRY**

India was the ninth largest civil aviation market and was expected to become the third largest by 2020.<sup>xxxix</sup> The total size of the Indian airline industry was approximately USD 16 billion in December 2017. LCCs dominated the Indian market with more than 60% share in 2016. Indigo, an LCC, had the highest market share in March 2016 (see Exhibit 8 for market shares of airlines in India). MCA was responsible for formulating the policies in this sector, and the DGCA was the regulatory body. As per the Centre for Asia Pacific Aviation Consultancy, a leading consulting and advisory firm for the aviation industry, domestic

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<sup>15</sup> Cyrus Mistry joined Tata Sons in 2012 as the Chairman. He was earlier a Director at Tata subsidiary companies like Tata Elxsi Limited and Tata Power Limited.

<sup>16</sup> Foreign Exchange Management Act (FEMA) was the law that dealt with issues related to foreign exchange in India.

travelers in India would increase to 100 million by 2017 from 81 million in 2015. MCA encouraged modern airports, LCCs, FDI in the aviation sector, the intervention of advanced technology and an emphasis on regional connectivity. FIA also functioned as a representative of the interests of the domestic industry.

### **Regulatory Environment in Indian Civil Aviation**

Indian Civil Aviation (ICA) had a regulatory framework that governed the entry and operations of both domestic and international airlines. The aviation turbine fuel price was very high in India and accounted for about 30% of the total cost during 2015-16. Landing, airport and navigation charges were very high and accounted for about 9.1% of the cost (see Exhibit 9 for details about the cost structure of aviation industry in India). ICA had route dispersal guidelines which mandated that all airlines had to fly unprofitable routes. It also limited the unbundling of services provided by airlines. The industry had a shortage of pilots. (See Exhibit 10 for details about the regulatory environment in Indian Civil Aviation.)

### **Competitors in the Indian Aviation Industry**

AAI faced stiff competition from various players in India. It had faced competition from both full-service carriers like Air India, Jet Airways and Vistara, and budget carriers like Indigo, SpiceJet and Go Air among others. The industry also had regional players like Air Costa, Air Pegasus, TruJet and Zoom Air. The industry had seen two major acquisitions over the years and one merger during 2007. Air Deccan, the first LCC was acquired by Kingfisher Airlines and Air Sahara by Jet Airways. The national carriers Air India and Indian Airlines were merged together to form a single airline. (See Appendix 1 to know details about competitors in the Indian airline industry.)

### **External Challenges Faced**

The execution of the entry also faced severe external environmental challenges with the FIA questioning the eligibility of the promoters, legal battles and price wars in the market.

#### *FIA and Legal Challenges*

FIA questioned AAI's commitment to the domestic market because its largest shareholder AAB was an overseas company. FIA accused the airline of being controlled by Fernandes from Malaysia in violation of the government's norms. Members of FIA complained that AAB controlled AAI and had violated the SOEC clause of FDI. FIA filed a case against AAI in the Delhi High Court in 2014. In August 2016, it requested the Supreme Court to intervene and fast-track the case that had been pending in the High Court since April 2014. In November 2016, the Delhi High Court ordered AAI to submit the agreement before DGCA.<sup>xi</sup> In February 2017, the DGCA examined the document and decided that the airline had not violated the rule.<sup>xii</sup> AAI's application for membership of FIA had still not been approved.

#### *Price Wars*

SpiceJet offered discounts on tickets in May 2016. It offered domestic fares from INR 511 and international fares of INR 2,111 in its eleventh year of operation.<sup>xlii</sup> Air India offered a "super sale" scheme with tickets starting from INR 1,499 for domestic routes.<sup>xliii</sup> Jet Airways offered a 20% discount on business and economy fares booked between June 2, 2016 and June 6, 2016, for travelling between June 25 and September 30, 2016.<sup>xliv</sup> Indigo too offered fares of

INR 800 and INR 924 for various routes.<sup>xlv</sup> SpiceJet recorded a highest passenger load factor<sup>17</sup> (PLF) of 93.2% in April 2016. AAI carried about 7.93 million passengers during April 2016, an increase of 21% from April 2015. AAI had a PLF of 84.8% during April 2016. (See Exhibit 11 for a comparison of passenger load factor and break-even load factor during 2015-16.)

### **The Attractiveness of International Entry**

The domestic and international traffic of India had recorded a compound annual growth rate (CAGR) of 9.89% and 8.07% respectively between 2007-08 and 2016-17. Emirates, Etihad, Qatar Airways, Air Arabia, Oman Air, Saudia, SriLankan Airways, Thai Airways, Lufthansa and Singapore Airlines were some of the major foreign airlines that had started international operations in India. Indian and foreign carriers held a share of about 37.7% and 62.3% shares of international operations in 2016-17. (See Exhibit 12 for details of the shares of international travelers held by Indian and foreign airlines.) During 2016-17, about 92 airlines operated on international routes in India of which the top six carriers held about 50% of the traffic. (See Exhibit 13 for the market share of airlines in international operations.) More than 50% of international travellers came to India (inbound) through the Middle East and Africa during June 2016. The Middle East and Africa also accounted for the maximum number of passengers who travelled from India to other countries. Africa, the Middle East, Asia Pacific, Europe, China and the US were the major places for both inbound and outbound international flights in 2016-17 (see Exhibit 14 for inbound and outbound international traffic during 2016-17). A large number of commuters transported to and from the United Arab Emirates region flowed through Singapore and Saudi Arabia. Among the various regions, UAE was the country that had the highest inbound and outbound international traffic followed by Singapore, Thailand and others during April to June 2017 (see Exhibit 15 for the top 10 countries for international traffic for India.) Indian carriers collaborated with global carriers to increase their connectivity to various places. Air India joined the Star Alliance<sup>18</sup> and Jet Airways partnered with Etihad Airways. International travel in collaboration with geographic locations and connecting flights worked like a hub and spoke model. For instance, Indian passengers travelled to the US *via* Gulf countries.

In India, international operations were more profitable than domestic operations because of the cost difference between domestic and global aviation turbine fuel. The fuel was priced higher in India. As per the 5/20 rule, no airline was allowed to fly internationally before it had a fleet size of 20 and had five years of domestic operation. The GOI amended the existing policy and prepared an NCAP draft on October 30, 2015. The draft was kept open for stakeholders' comments till November 30, 2015.<sup>xlvi</sup> Members of the FIA strongly objected to the abolition of the 5/20 rule. In February 2016, the FIA submitted a memorandum to Jitendra Singh, Minister of State, Prime Minister's Office, seeking the office's intervention in opposing the removal of the rule. However, the revised policy allowed a carrier to fly globally before five years of its operation if it had used 20 of its aircraft or 20% of the total capacity, whichever was higher, for domestic operations.

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<sup>17</sup> Passenger Load Factor (PLF) is the number of seats filled by an airline per aircraft. Airlines used PLF to calculate the capacity utilisation of a carrier. An airline would make profit if the PLF was higher than its Break-even Load Factor (BELF). BELF is defined as the load factor at which the carrier would achieve its break-even.

<sup>18</sup> Star alliance was the largest global association among airlines from various countries. The objective was to connect with more places through the airline network.

Indian Airlines was the sole international carrier until 2004. Air Sahara was the first private carrier that started international operations in March 2004 after the Indian government introduced the Open Skies Policy in 2013, which permitted private players to fly international flights to South Asian countries. Jet Airways started international flights in 2004. LCCs like SpiceJet and Indigo had started their international operations in 2010 and 2011 respectively to places like the Middle East and South-East Asia. Go Air completed five years of its operation in 2012 but could not start its international operations as it had a fleet size of 19. In 2016, it bought its twentieth aeroplane and became eligible to start foreign flights. It was planning to start international operations in December 2017 to places like Phuket and Maldives.<sup>xlvii</sup>

### **THE DECISION BEFORE FERNANDES**

In the context of the above and the new regulations, Fernandes had to develop an appropriate response to the business situation that had emerged. If he decided to respond, he could start international flights with AAI. However, before flying internationally, he had to turn AAI around domestically.

## **Exhibit 1: Key Features of the National Civil Aviation Policy 2016**

### **Regional Connectivity**

As per the policy, airlines would charge INR 2,500 for a one-hour flight as a part of connecting smaller cities. The Government of India would sanction INR 500 million to INR 1,000 million for reviving airports as no-frills airports. The policy reduced service tax (on 10% of the taxable value) on tickets for one year, and 2% reduced excise duty for fueling at Regional Connectivity Scheme airports. The State Government would provide police and fire services free of cost.

### **Route Dispersal Guidelines (RDG)**

NCAP revised route categorisation. Category I was modified as a flying distance of more than 700 kilometres with a passenger load factor of 70% and 500,000 travellers annually. Category III included the remaining routes other than category I and II. As per this guideline, all the carriers had to deploy at least 35% of the deployed capacity of Category I in Category III. Himachal Pradesh and Uttarakhand routes were included in Category II.

### **5/20 Requirement**

The new policy abolished the 5/20 rule. An airline could start international operations if it deployed 20 aircraft or 20% of its capacity, whichever was higher, for domestic operations even before completing five years of internal functioning.

### **Bilateral Traffic Rights**

The Government of India would encourage "Open Sky" with South Asian countries and places beyond 5,000 kilometres from Delhi on a mutual basis.

### **Ground Handling Policy**

All the major airports would have three Ground Handling Agencies including the subsidiary of Air India. At the non-major airports, the airport operator would decide on the number of ground handling agencies depending on the terminal building capacity and traffic output. The policy did not allow recruitment of employees through third-party sources for safety reasons.

### **Airport Public Private Partnership**

The Government of India encouraged developing airports through the Public Private Partnership mode in collaboration with the Airport Authority of India, State Governments and Private players.

### **Helicopters and Charters**

DGCA would notify separate regulations for helicopters and airport charges for helicopter operation.

### **Maintenance, Repair and Overhaul (MRO)**

The MRO business of Indian carriers was around INR 50,000 million, out of which 90% was spent outside India. In the 2016-17 budget, customs duty and the process for goods clearance were simplified.

### **Aviation Education and Skill Building**

National Skill Qualification Framework Standards would provide training to the non-licensed category. The Ministry of Civil Aviation (MCA) would provide support to the Aviation Sector Skill Council for imparting skills for the growing aviation industry. MCA would also develop a scheme with budgetary support for Type-rating of Pilots.

Source: [civilaviation.gov.in](http://civilaviation.gov.in)

Retrieved from: [http://www.civilaviation.gov.in/sites/default/files/Final\\_NCAP\\_2016\\_15-06-2016-2\\_1.pdf](http://www.civilaviation.gov.in/sites/default/files/Final_NCAP_2016_15-06-2016-2_1.pdf) (accessed on October 22, 2016)

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**Exhibit 2: Profiles of the team Members****Tony Fernandes**

Educated at Epsom College and London School of Economics, Fernandes, 37, was a fellow of the Association of Chartered Certified Accountants. He had worked with Virgin Atlantic, an airline company, as an auditor, and in Virgin Records, a music company, as its financial controller. He was the Vice President, ASEAN, of Warner Music South East Asia. He had received awards for popularising Malaysian music.

**Pahamin A. Rajab**

Pahamin A. Rajab, 55, had worked in the ministry of transportation and other departments of the Government of Malaysia. He was the Chairman of the Patent Board and Copyrights when Fernandes requested him to organise a meeting with the Prime Minister. He worked as a lawyer in the High Court of Malaysia. He was recognised internationally as an expert in intellectual property laws by the World Intellectual Property Organization. He was a graduate in International Relations from the University of Malaya. He had a law degree from the University of London and a post-graduate degree in Public Policy from the University of Wisconsin. Fernandes shared a cordial relationship with him while working as the Vice President of Warner Brothers and discussed problems in fighting music piracy.

**Kamaruddin Meranun**

Kamaruddin Meranun, 41, was the promoter of Intrinsic Capital Management. He had started this company after acquiring the shareholding of the joint venture partner in Innosabah Capital Management Sdn. Bhd., a subsidiary of Innosabah Securities Sdn. Bhd. He had worked in Arab Malaysian Merchant Bank where he had managed the funds of high net worth individuals. He had been a friend of Fernandes.

**Abdul Aziz Baker**

Abdul, 48, was actively associated with the music industry in Malaysia. He was an agricultural graduate from Malaysia and an MBA from Dallas. Fernandes got to know him while working with the music industry.

Source: Company reports

Retrieved from: <http://www.airasia.com/my/en/about-us/ir-directors-biography.page> (accessed on August 10, 2016)

**Exhibit 3: Financial Performance of AAB (in Malaysian Ringgit, RM)**

<b>Items</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Revenues	5,111,822	5,415,744	6,001,933
Other income	137,813	156,338	212,153
Operating Expenses			
Staff costs	606,765	642,222	732,935
Aircraft fuel expenses	2,212,198	2,254,237	2,000,650
Aircraft operating lease expenses	189,354	198,280	102,232
Maintenance and overhaul	138,622	149,411	196,637
Depreciation of property, plant and equipment	596,827	718,202	691,853
User charges	490,009	545,279	684,342
Other operating expenses	196,596	260,909	695,277
Foreign exchange losses on borrowings	353,218	609,087	1,379,038
Foreign exchange gains from associates and joint venture	34,088	190,293	601,708
Profit/loss before taxation	184,091	27,321	253,362
Taxation			
Current taxation	18,910	25,638	35,838
Deferred taxation	19,799	85,773	361,809
	889	60,135	325,971
Net Profit	184,980	32,814	72,609

Source: airasia.com

Retrieved from: <http://www.airasia.com/my/en/about-us/ir-annual-reports.page> (accessed on December 22, 2016)

#### **Exhibit 4: Details of AAB's entry into different countries**

##### ***Thai Air Asia***

Fernandes entered Thailand through a joint venture between AirAsia Investment, a holding company of AAB, and Shin Corporation, a shipping firm promoted by Tasksin Shinawat, the then Prime Minister of Thailand. Thai AirAsia (TAA) was incorporated in September 2003. During 2006, Asia Aviation, an aviation company promoted by Shin Corporation acquired Shin Corporation's shares.<sup>xlviii</sup> In 2004, TAA started its scheduled operations. In February 2006, Asia Aviation was rebranded as Asia Aviation Public Company Limited (AVPCL) and in May 2012 it increased its share in the company to 55%. TAA became the largest LCC in Thailand. By December 2015, TAA had 45 aircraft connected to 44 destinations. It earned a total revenue of THB<sup>19</sup> 29,507.3 million with a net profit of THB 1,958.3 million for the financial year 2015 (see Table I for the financial performance of TAA). It had a market share of about 22% by 2016.

##### ***PT Indonesia AirAsia***

Indonesia was the second country after Thailand that AAB entered. PT<sup>20</sup> Indonesia AirAsia (IAA) was founded in 2004 through a joint venture between AirAsia International Ltd. and PT Air Wagon Air International (AWAI), an existing airline in Indonesia.<sup>xlix</sup> AWAI had started its operations in 2000. It had ceased operations in March 2002 because of heavy losses and stiff competition. In March 2005, AAB entered into an agreement with AWAI to buy 49% of its shares and rebranded it as PT Indonesia AirAsia. Indonesia had witnessed about 40 airline accidents since 2001.<sup>l</sup> The European Union had banned many Indonesian carriers including IAA for safety reasons till July 2010. On December 28, 2014, 8501, a flight from IAA, crashed while travelling from Surabaya, the second largest city from Indonesia to Singapore and all 162 passengers including the crew died because of the problem with the rudder limit of the aircraft.<sup>li</sup> The Indonesia Transport Ministry banned IAA from flying six of its main routes for violating the permit and flying on an unauthorised schedule. IAA faced stiff competition in the domestic market due to the presence of competitors like Lion Air, Garuda Indonesia and others. Lion Air Group had the maximum market share in the domestic market. IAA incurred a loss of RM 678,264 for the financial year 2015.<sup>lii</sup> It focussed on the relatively underserved and growing international market of Indonesia as foreign tourists continued to visit Indonesia and middle-class Indonesian travellers started visiting other countries. IAA became a leader in international operations.<sup>liii</sup> It had a market share of about 8% by 2016.

##### ***Philippines AirAsia***

The Philippines was the next country of entry. Philippines AirAsia (PAA) was established in 2012 through a joint venture between AirAsia International Limited and three Philippine investors with a shareholding of 40% and 60% respectively. PAA started its operations in March 2012 at Clark International Airport, approximately 80 kilometres north-west of Manila, the capital of Philippines. PAA was struggling to attract customers to the domestic market. It wanted to get slots at the Manila International Airport (MIA), the central airport of the capital of Philippines. In March 2013, it entered into a strategic alliance with Zest Air, a Low-Cost Carrier (LCC) based at MIA, struggling financially. PAA rebranded Zest Air as AirAsia Zest (AAZ).<sup>liv</sup> It was facing stiff competition from Cebu Pacific, an LCC and the market leader in domestic operations and Philippines Airlines (PAL), the national carrier that had the highest share in international operations during 2013. Carriers like AirPhil Express, the budget carrier from PAL, Cathay Pacific, Singapore Airlines, Emirates, Asiana Airlines, Korean Air and others made the competition more intense for PAA. AAZ integrated with PAA and became a single entity in December 2015. PAA incurred a loss of P 915<sup>21</sup> million during the third quarter of 2016.<sup>lv</sup> It was planning to raise money through an Initial Public Offer (IPO) in 2017. It had a market share of about 11% by 2016.

<sup>19</sup> THB stands for Thai Baht, the currency of Thailand. 1 THB = INR 1.91 as on December 5, 2016.

<sup>20</sup> PT stood for Perseroan Terbatas in the Indonesian language. PT meant a limited liability company.

<sup>21</sup> P stood for Phillippine Peso, the currency of Philippines. 1 USD was approximately 49.7 P during January 2017.

**AirAsia Japan**

Japan was the fourth country Fernandes entered. AirAsia Japan (AAJ) was established in August 2011 through a joint venture between AirAsia International Limited and All Nippon Airways (ANA), the largest airline in Japan with a shareholding of 33% and 67% respectively.<sup>lvi</sup> On August 1, 2012, AAJ commenced its scheduled operations. It connected to a few domestic destinations within Japan and international destinations in South Korea. It had a fleet size of four Airbus A320 by 2013. It incurred an operating loss of JPY<sup>22</sup> 3.5 billion by March 2013. In June 2013, it declared that it would exit from the joint venture by selling its stake to ANA.<sup>lvii</sup> AAJ broke up with ANA because of differences and disagreements in managing the business of the airline. AirAsia's strategy which had worked in Malaysia was not successful in Japan. AAJ sold its tickets online through its website but the Japanese preferred to buy tickets from travel agents and convenience stores. AAJ struggled to fill all the seats. Its online reservation was troublesome, initially available only in English and providing limited payment alternatives. AAJ expected passengers to check in 45 minutes before takeoff, but in Japan, airlines allowed passengers to check in even 15 minutes before departure. Japanese customers expected attentive service even from budget carriers. In October 2013, AAJ separated from AAB and rebranded itself as Vanilla Air from November 1, 2013 onwards. However, Fernandes wanted to return to Japan in the future. On July 1, 2014, AAB declared that it had partnered with Rakuten, an online seller in Japan, Noevir Holdings, an aircraft leasing company, Alpen, a sportswear company and Octave Japan, a private equity company to relaunch AirAsia Japan.<sup>lviii</sup>

**AirAsia X (AAX)**

In 2007, AAB started AAX, a low-cost, long-haul flight with the objective to strengthen its presence in international platforms.<sup>lix</sup> In November 2007, AAX started its first flight from Kuala Lumpur to Australia. It connected with the cheaper international airports. It used A330-300 aircraft for its operation which had a combination of 365 economy and 12 premium seats. AAX was the first budget airline to provide premium flatbeds in its flight. It also offered complimentary food, privacy screens, movable headrests, priority check-in and boarding, 40kg free baggage and other services to its premium customers. AAX provided a "Quiet Zone" cabin in its flights that offered a better ambience with soft lighting and a relaxed atmosphere for passengers over 12 years of age. By 2017, AAX had connected with 23 destinations over Asia, the Middle East, New Zealand, Africa and Australia. It had a fleet size of 30 by October 2016. In 2014, AAX entered Thailand and Indonesia and started Thai AirAsia X and Indonesia AirAsia X respectively.

Source: Company Reports

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<sup>22</sup> JPY stood for Japan Yen. 1 JPY was equal to approximately INR 59 as on December 5, 2016.

**Table I: Financial Performance of Thai AirAsia (in Thai baht million)**

Financial Item	2013	2014	2015	9M2016
Revenues	23,485.0	25,355.5	29,507.3	24,853.8
Cost of Sales	19,928.4	23,707.7	25,315.1	19,966.9
Gross Profit	3,556.7	1,647.9	4,192.2	4,886.9
Other income	928.8	919.8	956.3	641.7
Selling and administrative expenses	1,755.7	1,924.9	2,377.4	1,934.8
Net loss on exchange rates			204.8	
Profit before finance costs and income tax (EBIT)	2,729.8	642.8	2,566.4	3,593.8
Finance costs	171.0	312.8	457.1	396.2
Income tax	651.2	1.3	151.1	124.6
Net profit	1,907.7	331.3	1,958.3	3,322.2

Source: [www.aavplc.com](http://www.aavplc.com)

Retrieved from: [http://www.aavplc.com/index.html?menu=financial\\_highlight&lang=en](http://www.aavplc.com/index.html?menu=financial_highlight&lang=en) (accessed on December 22, 2016)

**Exhibit 5: Domestic Destinations covered by Air Asia India by 2016**

Cities	To Travel Destinations						
Bangalore	Goa	Guwahati	Jaipur	Kochi	Delhi	Pune	Vizag
Chandigarh	Bangalore						
Chennai	Closed on April 2, 2015						
Goa	Bangalore	Delhi	Vizag				
Guwahati	Bangalore	Imphal	Delhi				
Imphal	Guwahati	Delhi					
Jaipur	Bangalore	Pune					
Kochi	Bangalore	Vizag					
Delhi	Bangalore	Guwahati	Goa	Imphal	Vizag		
Pune	Bangalore	Jaipur					
Vizag	Bangalore	Goa	Kochi	Delhi			

Source: [airasia.com](http://airasia.com)

Retrieved from: <http://www.airasia.com/in/en/where-we-fly/route-map.page> (accessed on November 20, 2016)

## Exhibit 6: AirAsia India Promotion



Source: twitter.com

Retrieved from: <https://twitter.com/airasiain/status/748043445063852032> (accessed on October 10, 2016)

## Exhibit 7: Financial Performance of AAI Unaudited (in INR'000)

Financial Item	Jan – Dec 2016	Jan – Dec 2015	Jan – Dec 2014
Revenue	8,252,071	5,204,576	846,809
Other income	169,729	54,200	2,219
Operating Expenses			
Staff costs	1,582,457	1,245,807	652,881
Aircraft fuel expenses	3,643,581	2,285,949	570,853
Aircraft operating lease expenses	1,620,315	1,118,228	267,814
Maintenance and overhaul	1,018,295	483,249	65,018
Depreciation of property, plant and equipment	90,421	48,080	3,633
User charges and expenses	1,207,443	686,735	94,538
Other operating expenses	683,616	1,024,549	194,751
Operating loss	1,424,328	1,633,821	1,000,459
Finance income	15,317	42,033	9,904
Finance costs	6,652	19,016	1,007
Net operating loss	1,415,663	1,610,804	991,562
Foreign exchange gain/loss	30,902	50,578	26,202
Loss before tax	1,446,565	1,661,382	1,017,764
Current Taxation			1,262
Net loss after tax	1,446,565	1,661,382	1,019,026

Source: Company reports

**Exhibit 8: Market Shares of Major Airlines in India**

SI No	Airlines	Market Share (in percentage)
1	Indigo	40.1%
2	Jet Airways	18.4%
3	Air India	13.2%
4	Spicejet	12.8%
5	Go Air	8.3%
6	AirAsia India	2.6%
7	Vistara	2.8%

Source: Handbook on Civil Aviation Statistics 2016-17 retrieved from [http://dgca.nic.in/pub/Handbook\\_2016-17.pdf](http://dgca.nic.in/pub/Handbook_2016-17.pdf) (accessed on June 15, 2017)

**Exhibit 9: Approximate Cost Structure of the Aviation Industry in India, 2015-16**

Attributes	Percentage
Fuel	30
General administration	10.9
Rentals of flight equipment	13.3
User charges (airport, landing and navigation charges )	9.1
Ticketing sales and promotion	6.2
Depreciation and amortisation	8.8
Maintenance, repair and overhaul charges	5.7
Tax	10.4
Flight crew salary and expenses	3.5
Other expenses	2.0

Source: Handbook on Civil Aviation Statistics 2016-17

## Exhibit 10: Regulatory Environment in Indian Civil Aviation

### Aviation Turbine Fuel (ATF), Airport Charges

The Aviation Turbine Fuel (ATF) price was very high in India. As per the data published by the International Air Transport Association and Oil Companies in 2011, domestic airlines in India were paying 50% more than those in West Asian and European countries (see Table II for Aviation Turbine Fuel Prices – Global Average vs. India). ATF prices in domestic operations were significantly higher in India because they were largely dependent on the International Import Parity Prices and not related to the real cost of producing in India. The cost of ATF involved transportation charges from Gulf countries to India, distribution within India, higher taxes (customs duty of 10% minimum that might be increased up to 20% including excise duty of 8.22% plus sales tax by state governments) and profit margins for petroleum companies. State level tax varied between 3-4% in Tamilnadu to higher than 20% in Karnataka. ATF accounted for around 30% of the operating cost of the Indian carriers against 20% of the operating cost of the global airline companies. Airport charges in India were very high. All the main airports had increased aeronautical charges in 2013 (see Table III for Hike in Aeronautical Charges in four Metro Airports in India). Delhi airport was one of the most expensive airports in the Asia-Pacific region. It was more expensive than Sydney, Tokyo and Osaka. Asian airports like Singapore, Bangkok, Beijing and Dubai were reducing their charges, sometimes through discounts. India did not have any low-cost terminals like Malaysia and other countries.

**Table II**  
**Aviation Turbine Fuel Prices – Global Average vs. India**

SI No	ATF Prices (2011)	Rates in USD/Tonne
1	Global Average	1,028.20
2	Asia and Oceania	1,013.50
3	Europe and CIS	1,040.80
4	Middle East and Africa	1,009.70
5	North America	1,029.40
6	Latin and Central America	1,037.40
7	New Delhi (International)	1,190.25
8	New Delhi (Domestic)	1,560.00

Source: business-standard.com

Retrieved from: [http://www.business-standard.com/article/economy-policy/aviation-fuel-price-50-higher-in-india-11111700039\\_1.html](http://www.business-standard.com/article/economy-policy/aviation-fuel-price-50-higher-in-india-11111700039_1.html) (accessed on January 7, 2017)

**Table III**  
**Hike in Aeronautical Charges in four Metro Airports in India**

Airports	Aeronautical Charges hike (%)	With Effect From
Delhi	364%	May 15, 2012
Mumbai	164%	February 1, 2013
Kolkata	219%	February 16, 2013
Chennai	141%	March 1, 2013

Source: livemint.com

Retrieved from: <http://www.livemint.com/Politics/BxDHc1FocSlahkxhSVKYaN/Airport-charges-soaring-in-India-amid-rebates-incentives-ab.html> (accessed on December 7, 2016)

### Route Dispersal Guidelines

Route Dispersal Guidelines (RDG) were introduced by the DGCA in 1994 with the objective to connect the remote and unviable routes within the country. RDG divided all domestic routes into three categories – Category I, II and III (see Table IV for Route Dispersal Guidelines in India). Category I routes were between inter-metro and bigger cities. Category II routes were to the north-eastern region, Andaman & Nicobar, Lakshadweep and Jammu and Kashmir. Category III included routes other than category I and II. As per this guideline, all the carriers had to deploy at least 10% and 50% of the deployed capacity of Category I in Category II and Category III respectively.

**Table IV  
Route Dispersal Guidelines**

Category I	
Mumbai – Bangalore	Calcutta – Delhi
Mumbai – Calcutta	Calcutta – Bangalore
Mumbai – Delhi	Calcutta – Chennai
Mumbai – Hyderabad	Delhi – Bangalore
Mumbai – Madras	Delhi – Hyderabad
Mumbai – Trivandrum	Delhi – Chennai
Category II	
North-Eastern region, Jammu & Kashmir, Andaman and Nicobar and Lakshadweep	
Category III	
Remaining routes other than Category I & II	

Source: Civilaviation.gov.in

Retrieved from: [http://civilaviation.gov.in/sites/default/files/moca\\_000754.pdf](http://civilaviation.gov.in/sites/default/files/moca_000754.pdf) (accessed on December 7, 2016)

### **5/20 norm**

In 2004, the GOI came up with the 5/20 norm. As per this rule, all carriers were required to have five years of domestic operations and 20 aircraft to start an international operation. This rule was present only in India.

### **Restriction on Unbundling of Services**

Unbundling of services was prevalent in the Indian aviation industry until March 2013. Unbundling remained a source of ancillary revenue for airlines as they charged for services like preferred seats, lounges, baggage, food and other facilities. In April 2013, the Aviation Ministry in India allowed airlines to unbundle their services and charge fees for carrying musical instruments, sports equipment, meals, drinks (except water), preferred seats and lounges. Most of the carriers in India allowed between 15-20 kilograms (kg) free baggage per passenger on domestic flights. From June 1, 2013, Jet Airways and Indigo reduced the free baggage from 20kg to 15 kg. SpiceJet and GoAir still allowed 20kg free baggage. Most of the carriers charged INR 250-350 per kg above the free baggage limit. In August 2015, the DGCA allowed the domestic players to introduce lower fares for passengers travelling without check-in baggage. SpiceJet offered a discount of INR 200 for passengers travelling without checked-in baggage and one hand baggage, but it would charge customers a fine of INR 400 in case they were found with checked-in baggage. Passengers who later decided to carry checked-in luggage had to pay a fee of INR 500 for up to 10 kg and INR 750 for up to 15 kg baggage respectively. Three airlines, SpiceJet, Indigo and AAI had earlier approached the DGCA with zero-bag fare discount on no check-in baggage. The regulator, however, had rejected the proposal citing that this would discourage middle-class customers from travelling by air.

### **Shortage of Pilots**

The airline industry in India had a dearth of pilots. Usually, an airline required 10 pilots per plane. However, many Indian players managed with 8.<sup>ix</sup> Because of the scarcity of pilots in India, airlines were hiring pilots from other countries by paying an additional 60%. While the human resource cost was about 10% of total cost, hiring pilots from overseas pushed up costs. The Indian aviation industry was estimated to require about 9,000 pilots by 2018. Though some people had a Commercial Pilot License (CPL) and

Private Pilot Licenses (PPL) they could not be hired immediately as pilots without training. The cost of training on a particular aircraft was around USD 48,000.<sup>ix</sup> It took about two years for a trainee pilot to obtain CPL but the pilot needed to be trained on a particular aircraft for a few months before being cleared for flying commercial jets. Chartered flights found it harder to get a pilot at an affordable cost. It took around 60 days to get the security clearance from the Home Ministry to get the Foreign Aircrew Temporary Authorisation.

**Exhibit 11: Comparison of Passenger Load Factor and Break-even Load Factor during 2015-16**

Airlines	Passenger Load Factor	Break-even Load Factor
Air India	75.5	75.1
Air India Express	82.4	62.9
Jet Airways	82.6	77.9
Indigo	84.0	71.0
SpiceJet	90.6	85.0
Go Air	83.7	77.5
AirAsia India	80.2	102.3
Vistara	69.4	112.0
TruJet	80.1	142.1
Air Costa	80.7	98.8
Air Pegasus	78.5	81.2

Source: Handbook on Civil Aviation Statistics 2016-17 retrieved from [http://dgca.nic.in/pub/Handbook\\_2016-17.pdf](http://dgca.nic.in/pub/Handbook_2016-17.pdf) (accessed on June 10, 2017)

**Exhibit 12: International Passenger Market Share by Indian and Foreign Airlines (in %)**

Year	Foreign Carriers	Indian Carriers
2004-05	71.1	28.9
2009-10	65.5	34.5
2010-11	63.8	36.2
2011-12	64.1	35.9
2012-13	66.2	33.8
2013-14	61.7	38.3
2014-15	63.0	37.0
2015-16	63.4	36.6
2016-17	62.3	37.7

Source: Handbook on Civil Aviation Statistics 2016-17 retrieved from [http://dgca.nic.in/pub/Handbook\\_2016-17.pdf](http://dgca.nic.in/pub/Handbook_2016-17.pdf) (accessed on June 10, 2017)

**Exhibit 13: Market Share of Airlines in International Operation (India) during 2016-17**

Sl. No.	Name of the Airline	Share (%)
1	Jet Airways	14.5
2	Air India	10.6
3	Emirates Airline	9.9
4	Air India Express	6.0
5	Etihad Airlines	5.0
6	Qatar Airways	3.9
7	Indigo	3.5
8	Air Arabia	3.2
9	Oman Air	3.2
10	SpiceJet	3.1
11	Saudia	2.8
12	SriLankan Airways	2.5
13	Thai Airways	2.4
14	Lufthansa	2.2
15	Singapore Airlines	2.0

Source: Handbook on Civil Aviation Statistics 2016-17 retrieved from [http://dgca.nic.in/pub/Handbook\\_2016-17.pdf](http://dgca.nic.in/pub/Handbook_2016-17.pdf) (accessed on June 10, 2017)

**Exhibit 14: India's Inbound and Outbound International Traffic, 2016-17**

<b>Country</b>	<b>Inbound International Traffic</b>	<b>Outbound International Traffic</b>
Africa and the Middle East	56.3%	56.2%
Asia Pacific	25.1%	25.0%
Europe	12.2%	12.4%
China and North Asia	4.1%	4.1%
The Americas	2.3%	2.4%

Source: Handbook on Civil Aviation Statistics 2016-17 retrieved from [http://dgca.nic.in/pub/Handbook\\_2016-17.pdf](http://dgca.nic.in/pub/Handbook_2016-17.pdf) (accessed on June 10, 2017)

**Exhibit 15: Top 10 Countries for International Traffic (April – June 2017) for India**

<b>Country</b>	<b>Market Share (%)</b>
UAE	32.3%
Singapore	7.4%
Thailand	5.8%
Oman	5.8%
Saudi Arabia	5.7%
Qatar	5.1%
Malaysia	4.2%
UK	4.2%
Sri Lanka	3.9%
Hong Kong	2.7%

Source: International Air Traffic Statistics, April – June 2017, DGCA Retrieved from [dgca.nic.in/reports/Traffic-ind.htm](http://dgca.nic.in/reports/Traffic-ind.htm) (accessed on September 10, 2017)

## Appendix 1: Competitors

### Air India

Air India (AI) was the national carrier of India. It was started as Tata Airlines in 1932 by Tata Sons Limited. In 1946, Tata Airlines became a Public Limited Company and was renamed as Air India. In 1948, the GOI bought a 49% stake in AI and increased the stake further in 1953 and established Air India International. AI operated as a full-service airline. It offered its services with a mix of Boeing, Airbus, Douglas DC - 8, Lockheed and Ilyushin II aircraft. It had a monopoly both on domestic and international routes till the early 1990s.

### Indian Airlines

The GOI introduced the Air Corporation Act in 1953 to nationalise the entire airline industry in India. Eight pre-independence domestic private airlines, Kalinga Airlines, Air Services of India, Airways India, Bharat Airways, Deccan Airways, The Domestic Wing of India and Himalayan Airways merged and established Indian Airlines Corporation (IAC). IAC took over mostly the domestic routes. It offered two class travel options, economy and executive. It offered complimentary food to its passengers. It offered its services with a mix of Douglas DC-3, Douglas DC-4, Vickers Viking, Boeing 737 and Airbus A320. In December 2015 IAC was rebranded as Indian. During 2004-05 it registered a profit of around INR 656.1 million. Till 2006, Indian was a profitable carrier; however, the airline suffered after the merger with AI and ceased operations in February 2011.

### Air India Regional

In 1996, Indian Airlines launched Alliance Air, an LCC to connect between the Tier II and Tier III cities in India. Alliance Air had used ATR 72-600 and ATR 42-320 aircraft. Indian Airlines rebranded Alliance Air as Air India Regional after the merger.

### Air India Express

In 2005, Air India started Air India Express (AIE), an LCC that took over short haul international routes mostly to destinations in the Middle East and Southeast Asia. AIE had point-to-point services with one type of plane Boeing 737-800 aircraft. It offered one class configuration. It gave complimentary food to its passengers. It made its first profit of around INR 41.5 million (unaudited) in the first half of 2016.

### Merger of Air India and Indian

In 2006, MCA decided to merge both the national carriers, Air India and Indian, to boost revenues. In 2007, AI and IAC merged under a new body called National Aviation Company of India Limited that was renamed as Air India Limited (AIL) in October 2010. AIL faced severe problems because of the post-merger disintegration between the two airlines, difficulties in the distribution and reservation system, differences in work culture, human resources policy, compensation plan and other issues.<sup>lxii</sup> Many employees left the company. In 2012, pilots of the airline went on strike for 58 days which led to the cancellation of flights, and the carrier suffered a total loss of INR 6 billion. AIL had an outstanding loan and dues of around INR 675.20 billion in 2012.

In April 2012, the GOI proposed a turnaround plan for AIL and would sanction a turnaround package of INR 300 billion and the induction of 27 Boeing 787 by 2020-21.

In 2014-15, AI suffered a loss of INR 59,058.40 million (see Table V for the financial performance of Air India). In 2016-17, the GOI sanctioned an amount of INR 17.31 billion to the airline against a demand of INR 43 billion. The airline registered a profit of around INR 80-100 million in the first quarter of 2016. In April 2016, AI had a market share of 14.7%.

**Table V: Financial Performance of Air India (INR in Million)**

Financial Items	2012-13	2013-14	2014-15
Income			
Revenues	145,714.44	165,526.60	182,903.10
Other income	15,006.30	25,408.30	23,228.50
Total income	160,721.10	190,934.90	206,131.60
Expenditure			
Aircraft operations	95,720.80	107,297.90	104,366.23
Repair, maintenance and overhaul	8,308.10	14,840.40	22,802.00
User charges and station expenses	11,063.80	13,916.30	14,537.50
Passenger services	6,881.00	7,871.20	10,547.47
Ticketing, sales and promotion	4,440.20	3,986.50	4,579.60
Depreciation and amortization	17,003.70	18,955.70	19,207.40
General & administration expenses	38,276.40	37,391.20	28,344.30
Other operating expenses	16,655.90	19,229.30	22,469.90
Total expenditure	198,349.90	223,488.50	226,854.40
Profit/loss before taxes	-65,119.40	-68,929.90	-59,058.40
Tax	0.00	0.00	0.00
Net profit/loss after tax	-65,119.40	-68,929.90	-59,058.40

Source: dgca.nic.in Retrieved from <http://dgca.nic.in/reports/Traffic-ind.htm> (accessed on November 8, 2016)

### Air Deccan

Air Deccan (AD), was the first LCC of India, founded in 2003 by G. R. Gopinath, a retired Indian Army Captain. AD had started connecting smaller towns with bigger cities. It provided single class, point-to-point services. It focused on high aircraft utilisation and quick turnaround time. AD targeted middle-class customers and offered fares 30% cheaper than full-service airlines. It did not provide meals or food on its flights. It distributed tickets through call centres, the internet and limited travel agents. It had tied up with Post Offices and created travel intermediaries to reach maximum people. It employed fewer people and outsourced most of its services wherever possible. It got additional revenues by permitting advertisements both within and outside the aircraft. It started with two ATR 42-320 aircraft and bought another two Airbus 132-200 in 2004. In December 2004, it entered into an agreement with Airbus for buying 30 A320 aircraft for USD 1.8 billion. It witnessed 30% passenger growth during 2005-06. However, with increasing fuel costs, aggressive expansion of routes and fleet sizes, AD made heavy losses. Established players like Sahara Airlines, Jet and Indian Airlines started giving discounts to fill their vacant seats. During 2005-06, LCCs like Indigo, SpiceJet, GoAir and Jet Lite entered the industry.

During the third quarter of 2006, AD incurred a total loss of INR 3,405.5 million (see Table VI for the financial performance of Air Deccan). It had 34 aircraft by June 2006 and travelled to more than 55 destinations. AD had a market share of approximately 19% by 2006-07.

**Table VI: Financial Performance of Air Deccan (INR in Million)**

Financial Items	March 31, 2003	March 31, 2004	March 31, 2005	June 30, 2006	June 30, 2007
Income					
Revenues	234.15	629.39	3,055.54	12,363.9	17,745.5
Other income	0.77	44.18	147.29	1,154.1	3,677.6
Total Income	234.92	673.57	3,202.83	13,518	21,423.1
Expenditure					
Staff costs	26.40	71.46	317.65	1,706.2	2,517.9
Aircraft fuel expenses	12.54	92.44	929.85	6,254.5	9,795.0
Aircraft lease	57.22	106.45	451.17	2,162.3	4,030.5
Repair and maintenance	3.10	88.43	492.76	1,775.6	2,275.0
Depreciation and amortisation	11.15	21.03	87.84	322.8	439.2
Selling and administration	34.56	75.57	203.06	1,091.2	1,312.7

Financial Items	March 31, 2003	March 31, 2004	March 31, 2005	June 30, 2006	June 30, 2007
expenses					
Operating expenses	58.11	167.64	736.54	1,327.7	1,611.0
Others	20.58	41.87	165.09	1,926.2	2,979.5
Total expenditure	223.66	664.89	3,383.96	16,566.5	24,960.8
Profit/loss before taxes	11.26	8.68	181.13	3,368.0	4,161.7
Tax	5.02	2.71	13.24		
Prior period income/expenses		0.37	27.43	37.5	34.1
Net profit/loss after tax	6.24	5.60	195.32	3,405.5	4,195.8

Source: sebi.gov.in Retrieved from [www.sebi.gov.in/dp/dec.pdf](http://www.sebi.gov.in/dp/dec.pdf) (accessed on December 8, 2016)

### Kingfisher Airlines

Kingfisher Airlines was established in 2003 by the Bangalore-based business conglomerate United Breweries Group (UB). On May 9, 2005, it started its first scheduled flight from Mumbai to Delhi. Vijay Mallya, the founder of the carrier, had positioned it as a premium airline. It offered free food and in-flight entertainment. Every seat in the Kingfisher aircraft had a TV screen like international carriers and a greeting from the founder through the screen. It gave goody bags to travellers and encouraged them to give their feedback about the service. It also had a first class in the flight. Kingfisher served free liquor to its first class customers though alcohol was not allowed on domestic flights in India.

### Acquisition of Air Deccan

Mallya wanted to start international flights, but as per the 5/20 norm, he could not start till the airline had completed five years of operation. He planned to buy an existing airline to start international operations. In 2007, he bought the loss-making AD as it already had 20 aircraft and by August 2008, it would be eligible to fly internationally. In May 2007, Mallya bought 26% equity in Air Deccan for INR 5.5 billion. He further acquired 20% and 2.95% stakes through open offers in October 2007 and December 2007 respectively. In December 2007, Kingfisher and Air Deccan had a combined market share of around 29% in the Indian aviation market. Kingfisher Airlines was rebranded as Air Deccan through a reverse merger and further rebranded as Simplify Deccan. Mallya changed the name to Kingfisher in 2008 after the completion of the acquisition with approval from the Security & Exchange Board of India (SEBI), the securities regulator in India. Kingfisher rebranded AD as Kingfisher Red and positioned it as a budget airline.

Kingfisher Red flew to tier II cities and a few bigger cities. Kingfisher remained the flagship premium brand and operated on the trunk routes and international routes. In September 2008, Kingfisher started its first international flight from Bangalore to London. Kingfisher Red cannibalised the flagship brand as both brands looked similar and customers preferred the low priced one. The global financial crisis in 2009 affected the business of Kingfisher. The airline found it difficult to manage two brands, one low-cost and another high-end. During September 2011, Kingfisher made a loss of INR 4,690 million. In 2011, it decided to exit from its low-cost business and ceased the operation of Kingfisher Red. It had a debt of around INR 65,000 million during November 2011. Kingfisher had taken loans from banks and was overburdened with a debt of around INR 70,000 million. In the quarter ending March 2012, it made a loss of INR 23,280 million (see Table VII for the financial performance of Kingfisher Airlines). It suspended operations from most of its locations as a result of which employees' salaries were delayed and the service deteriorated.

Mallya wanted a foreign carrier to invest in Kingfisher, but Indian regulations did not allow him to do so. He was a Member of Parliament at that time and lobbied for change. In October 2012, the DGCA suspended Kingfisher's license,<sup>lxiii</sup> and in December 2012, refused to renew its Air Operator Certificate permit.<sup>lxiv</sup>

**Table VII: Financial Performance of Kingfisher Airlines (INR in Million)**

<b>Financial Items</b>	<b>March 31, 2011</b>	<b>March 31, 2012</b>
Income		
Revenues	62,333.79	54,934.09
Duty free credit entitlement	12,62.617	
Other income	1,359.216	3,304.99
Total Income	64,955.623	58,239.08
Expenditure		
Staff costs	6,760.085	6,695.065
Aircraft fuel expenses	22,740.258	29,458.858
Aircraft lease	9,839.956	8,684.515
Finance costs	13,129.40	12,763.352
Depreciation and amortisation	2,410.376	3,418.659
Operating and other expenses	24,370.912	20,863.08
Redelivery and other costs arising on settlement of disputes	912.465	743,4.472
Restructuring costs		3,382.00
Total expenditure	80,163.452	92,700.001
Loss before taxes	15,207.829	34,460.921
Tax expense	4,933.849	11,180.846
Loss for the period	10,273.980	23,280.075

Source: moneycontrol.com

Retrieved from: [www.moneycontrol.com/bse\\_annualreports/5327470312.pdf](http://www.moneycontrol.com/bse_annualreports/5327470312.pdf) (accessed on June 16, 2017)

### **Air Sahara**

Air Sahara (AS) was started as Sahara Airlines in September 1991, by Sahara India Pariwar, a business conglomerate in India. Sahara Airlines began its operations in December 1993. It distributed tickets through authorised agents, station offices and airport counters, but sold maximum tickets through agents. It had a large workforce of 1,600 employees in 2000. On October 2, 2000, Sahara Airlines was rebranded as Air Sahara. It expanded aggressively to various destinations. It had taken loans from various financial institutions. In 2003, the Indian Government launched the Open Skies Policy that allowed private airlines to fly to neighbouring South Asian countries. AS was the first private airline that started international operations on March 22, 2004, flying from Chennai to Colombo, the capital of Sri Lanka. By 2006, it had a fleet size of 28 aircraft and travelled to 34 destinations within and outside India. Most of its fleet was underutilised because of the non-availability of pilots. It struggled because of huge infrastructure costs, increasing fuel prices, low profitability, underutilised aircraft and competition from LCCs like AD. It incurred a net loss of INR 3.49 billion during 2000-01, accumulated losses of INR 15.99 billion during 2001-02 and a loss of INR 3.775 billion during 2002-03. The Sahara India group wanted to exit from the airline business because of consecutive losses and also because it needed to focus on its other businesses like real estate and financial services.

In 2006, AS started negotiations with Jet Airways to sell its business. On April 13, 2007, Jet Airways acquired AS for INR 14.5 billion. Jet Airways got access to the parking slot at Delhi, Mumbai and London's Heathrow airports after acquiring AS. Jet Airways rebranded Air Sahara as Jet Lite.

### **Jet Airways**

Jet Airways was established in 1992 by Naresh Goyal who had considerable experience in the airline business. It started as an air taxi operator, a non-scheduled commercial airline in 1993 and began its scheduled operations in 1995. It positioned itself as a full-service carrier. It offered free food to its travellers. In 2004, it started its international operations. It acquired SA in 2007. It rebranded SA as Jet Lite and positioned it between low cost and full-service airlines. Jet Lite used a mix of Boeing 777-300 and A330-200 aircraft. It offered complimentary food on the flight. In May 2009, Jet Airways launched Jet Konnect and positioned it as a no-frills airline. Konnect used Boeing 737 and ATR for its operations and connected the metros, tier II and tier III cities. Its passengers could buy food on the flight. In March 2012, Jet Lite merged with Jet Konnect as a part of restructuring. In 2013, Etihad Airways, an airline from Abu Dhabi acquired a 24% stake in Jet Airways for about INR 20 billion. Jet

Airways recorded a loss of about INR 18 billion in 2014-15 (see Table VIII for details about the financial performance of Jet Airways). Cramer Ball, a turnaround expert from Australia, joined as the CEO of Jet Airways in May 2014. He took various initiatives like restructuring the route network, reducing the cost, increasing efficiencies, managing staff, increasing the cash flow, rearranging distribution, increasing sales and rebranding the airline. Under his guidance, in 2014, Jet Konnect merged with Jet Airways and started as a full-service carrier. Jet Airways had increased the aircraft utilisation to about 13 hours per day. It increased the seating capacity. It upgraded the company website and offered lowest priced tickets through the site. In March 2016, Jet Airways made a profit of INR 3,971.6 million. Jet Airways along with Jet Lite had a market share of 17.6% by April 2016.

**Table VIII: Financial Performance of Jet Airways (INR in Million)**

Financial Items	2012-13	2013-14	2014-15
Income			
Revenue	158,806.2	159,934.02	180,422.27
Other income	12,110.13	12,391.03	15,183.79
Total income	170,916.33	172,325.05	195,606.05
Expenditure			
Aircraft operations	8,8371.10	99,797.95	94,251.44
Repair, maintenance and overhaul	13,340.57	20,383.76	21,878.81
User charges and station expenses	12,706.91	14,587.70	15,959.77
Station expenses	2,232.91	2,078.34	2,245.72
Passenger services	7,286.88	8,399.54	10,094.00
Ticketing, sales and promotion	13,604.33	14,498.23	20,424.77
Depreciation and amortisation	9,265.72	8,757.44	7,625.01
General and administration expenses	22,882.05	32,569.55	42,550.59
Other operating expenses	0.00	0.00	0.00
Total expenditure	169,690.47	201,072.50	215,030.10
Profit/loss before taxes	-4,854.16	-36,678.51	-18,135.88
Tax	1.20	0.02	1.20
Net profit/loss after tax	-4,855.36	-36,678.49	-18,137.08

Source: dgca.nic.in/ Retrieved from: <http://dgca.nic.in/reports/Traffic-ind.htm> (accessed on November 8, 2016)

## Indigo

Indigo was a low-cost airline started in April 2006 by Rahul Bhatia<sup>23</sup> and Rakesh Gangwal<sup>24</sup>. They started Indigo with INR 10 billion in which Rahul had a 51.12% and Gangwal had a 48% stake. Indigo got its airline license in 2004, and started its operations in August 2006 with one aircraft. It ordered aircraft in bulk which helped it to get substantial discounts. It followed the sale-and-leaseback model, according to which the lessor would take back the plane after six years which helped it to instate new aircraft. It believed that new aircraft were better as they did not require repair and maintenance. It flew from one point to the other with one type of aircraft (Airbus 320). It offered only economy class. It did not give any in-flight entertainment or complimentary food on its flights. However, passengers could buy food in flight. It trained pilots to maintain a low turnaround time and its trained ground staff to disembark all passengers within six minutes, unload and load in 10 minutes and get the aircraft ready to fly in 25 minutes or less. It helped the airline to fly around 12 hours a day. It operated flights to fewer destinations than its competitors with a higher frequency. It used software for efficient aircraft planning and modern fuel saving technology. It had bought Airbus A320 neo family planes that claimed to consume 15% less fuel and incurred 8% less operating costs. In January 2011, it got the license to fly international after finishing five years of domestic operation. During early 2012, it had a fleet size of 50. It registered a market share of 27% in August 2012. Indigo recorded a net profit of about INR 16,590 million in 2014-15 (see Table IX for the financial performance of Indigo). By April 2016, Indigo was the market leader in India with a 38.4% market share.

<sup>23</sup> Rahul Bhatia was an electrical engineer from University of Waterloo, Ontario, Canada. He had founded Interglobe Enterprises Limited, an air transport management company.

<sup>24</sup> Rakesh Gangwal was a Bachelor in Technology from Indian Institute of Technology, Kanpur and an MBA from the Wharton School of Business. He had worked in various airlines like Air France and United Airlines in various capacities and was the former CEO of US Airways Group.

In 2016 it operated more than 681 flights daily, connecting to 40 domestic and five international destinations.

**Table IX: Financial Performance of Indigo Airlines (INR in Million)**

Financial Items	2012-13	2013-14	2014-15
Income			
Revenue	90,705.80	109,494.12	137,086.01
Other income	1,325.00	1,671.72	2,167.35
Total income	92,030.80	111,165.84	139,253.36
Expenditure			
Aircraft operations	62,332.66	78,816.70	86,755.22
Repair, maintenance and overhaul	2,058.90	2,341.08	2,914.55
User charges and station expenses	6,418.78	8,795.29	1,0901.32
Passenger services	339.94	359.40	477.07
Ticketing, sales and promotion	5,575.87	6,945.46	8,729.76
Depreciation and amortization	856.20	2,260.08	3,022.14
General and administration expenses	1,688.87	2,408.29	2,990.34
Other operating expenses	4,801.68	6,540.63	7,788.24
Total expenditure	84,072.90	108,466.91	123,578.64
Profit/loss before taxes	9,932.23	4,777.55	18,465.23
Tax	856.51	1,602.03	1,874.92
Net profit/loss after tax	9,075.72	3,175.52	16,590.31

Source: dgca.nic.in/Retrieved from: <http://dgca.nic.in/reports/Traffic-ind.htm> (accessed on November 8, 2016)

### SpiceJet

SpiceJet was started as an air taxi service provider in 1984 by an industrialist, S. K. Modi. In February 1993, SpiceJet entered into a technical alliance with the German national carrier Lufthansa and started an airline known as ModiLuft. It had both business and economy class. Lufthansa provided pilots, aircraft on lease and trained the cabin crew and other staff of ModiLuft. In May 1993 it started its first flight from Delhi to Mumbai. The joint partners separated in May 1996 after Modi alleged that Lufthansa had not invested in the airline as per its commitment. ModiLuft was rebranded as Royal airlines but never took off because of lack of funds. In 2004, Ajay Singh, an Indian entrepreneur, acquired the airline and rebranded it as SpiceJet. SpiceJet positioned itself as an LCC and started its first flight on May 24, 2005, from Delhi to Mumbai. It offered only economy class within its flights. However, passengers could get pre-assigned seats with extra leg room through its premium services, Spicemax. It did not provide complimentary food, but passengers could buy food on the flight. In 2005-06, SpiceJet collaborated with various travel websites like MakeMyTrip, Cleartrip, Travelguru and Indiatimes to distribute its tickets and increase its sales through the online mode. It made a sale and leaseback agreement with Babcock & Brown, an Australian investment company, for 16 new Boeing 737-800/- 900ER aircraft for USD 1.1 billion. In March 2006, it launched a co-branded credit card with State Bank of India. By 2008, it became the second largest LCC in India. In 2008, Wilbur Ross, an American investor, invested around INR 3.45 billion in the airline.

However, in 2010, Ross sold its stake to Kalanidhi Maran, chairman of the Sun Group, a giant media conglomerate based in Chennai. In September 2010, it completed five years of domestic operations and started its international operations. During 2012, it incurred a loss of USD 5.7 million because of the increasing price of global crude. Maran invested approximately USD 15 million in making the airline turn around. SpiceJet created a fun culture within the organisation. It introduced colourful weekend uniforms for its staff. In March 2014, its cabin crew celebrated Holi, an Indian festival by dancing in the flight. It offered 50% discount in July 2014 to attract more passengers. It had 140 employees per aircraft with a total of 5,500 employees in 2014. In the last quarter of 2014, the airline faced a financial crunch, cancelled around 2,000 flights and delayed staff salaries and defaulted on payments to airports, vendors and oil companies. It suffered a loss of around INR 6,870.54 million in 2014-15 (see Table X for details of the financial performance of SpiceJet). In January 2015, Maran sold the airline to Ajay Singh, an Indian entrepreneur who had tremendous experience in airline operation. Singh had taken various initiatives to turn around the loss-making airline. He performed the dual role of a CEO and promoter. He reduced the number of employees to 3,800. He retrenched

some of the top executive positions to save a wage bill of INR 200 million. He reorganised the route network of the airline. He dropped five destinations including two international routes. The decline in fuel prices helped the airline to recover and make profits. It launched a SpiceJet mobile application for its customers. It started making profit in the first quarter of 2015. It incurred a profit of INR 3,565.4 million in 2015. By April 2016, it had a market share of 12.8%.

**Table X: Financial Performance of SpiceJet (INR in Million)**

Financial Items	2012-13	2013-14	2014-15
Income			
Revenue	53,530.33	59,780.99	49,425.63
Other income	2,476.45	3,261.34	2,589.62
Total income	56,006.78	63,042.33	52,015.25
Expenditure			
Aircraft operations	36,436.39	43,387.62	32,951.75
Repair, maintenance and overhaul	6,737.57	9,932.53	6,721.16
User charges and station expenses	3,540.11	4,740.10	3,815.02
Passenger services	523.96	534.50	244.30
Ticketing, sales and promotion	2,791.45	3,521.47	2,793.61
Depreciation and amortisation	835.45	1,482.60	1,266.25
General and administration expenses	2,376.00	3,227.00	7,282.85
Other operating expenses	5,564.00	6,211.00	5,810.05
Total expenditure	58,804.93	73,036.82	60,884.99
Profit/loss before taxes	-1,910.76	-10,032.44	-6,870.54
Tax	0.00	0.00	0.00
Net profit/loss after tax	-1,910.76	-10,032.44	-6,870.54

Source: dgca.nic.in Retrieved from: <http://dgca.nic.in/reports/Traffic-ind.htm> (accessed on November 14, 2016)

### GoAir

GoAir was a budget airline founded in 2005 by the Wadia Group, a large business conglomerate in Mumbai. GoAir started its operations in November 2005. It operated point to point, did not offer complimentary food on board and charged for extra services. It provided a single class configuration. It utilised the aircraft 13 hours per day compared to the industry average of 11 hours. It had a quick turnaround time. It took various initiatives to keep the fuel consumption low. It operated only one engine during taxiing. It minimised the size of its in-flight magazine to bring down the aircraft weight. It hired more women cabin crew to keep the onboard weight low. It followed a calculated growth strategy instead of having an aggressive expansion strategy like other airlines.<sup>lxv</sup> It did not expand rapidly like other airlines. It focused on specific routes. Besides connecting metro routes, it connected metros to specific non-metro profitable routes. It used about 70% of its planes on the metro to non-metro routes, 24% on metro routes and 6% on non-metro routes. It had a fleet size of only 19 during 2012 for which the airline did not get the permission to fly internationally even after completing five years. However, the small fleet size helped the airline to fill its seats quickly and earn profit. GoAir was the second airline after Indigo that made profit consistently. It made a profit of INR 363.72 million in 2014-15 (see Table XI for the financial performance of GoAir). By April 2016, it had a market share of 8.3%.

**Table XI: Financial Performance of Go Air (INR in Million)**

<b>Financial Items</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
Income			
Revenues	21,434.64	23,588.76	28,140.48
Other income	824.68	1,735.03	2,523.76
Total income	22,259.33	25,323.80	30,664.24
Expenditure			
Aircraft operations	14,795.00	18,087.17	19,483.73
Repair, maintenance and overhaul	670.35	1,403.91	2,244.39
User charges and station expenses	1,347.35	1,816.60	2,271.85
Station expenses	1,869.03	0.00	0.00
Passenger services	266.46	990.25	0.00
Ticketing, sales and promotion	1,195.27	969.25	931.17
Depreciation and amortisation	72.52	81.74	91.35
General and administration expenses	1,192.37	877.45	3,693.34
Other operating expenses	0.00	0.00	0.00
Total expenditure	21,408.35	24,226.81	28,715.82
Profit/loss before taxes	1,469.86	83.70	532.62
Tax	426.46	29.29	168.90
Net profit/loss after tax	1,043.39	54.41	363.72

Source: dgca.nic.in

Retrieved from: <http://dgca.nic.in/reports/Traffic-ind.htm> (accessed on November 8, 2016)

### **Vistara**

Vistara was established in 2013 as a joint venture between Tata Sons Ltd with 51% and Singapore Airlines, the national carrier of Singapore, with 49% stake. Vistara positioned itself as a full-service carrier. It started its first scheduled flight in January 2015. It used Airbus A320-200 aircraft for its operations. It ordered Airbus A320 Neo planes, the upgraded version of planes that would be delivered by 2018. It offered three class configurations namely, business, premium economy and economy. It was the first airline to offer premium economy seats on domestic routes. It had a fleet size of 13 A320-200 aircraft in February 2017 and planned to increase it to 20 by 2018 to start international flights. It had a market share of approximately 2% as of April 2016.

### **Air Costa**

LEPL Group, a real estate firm in Vijayawada, a city in Andhra Pradesh, set up Air Costa in 2013. Air Costa started its operations in October 2013 as a regional airline and connected tier II and tier III cities in India. It used Embraer E-170 and E-190 aircraft. It offered both economy and business class. It had two hubs, Vijayawada and Chennai. It incurred a loss of INR 6,950 million by March 2014. On August 3, 2016, it cancelled all its flights due to non-payment of dues to the aircraft lessors. In October 2016, it received a Pan India airline license from the DGCA. It had plans to connect more cities in India.

### **Air Pegasus**

Air Pegasus was incorporated in 2014 by Décor Aviation, an aviation services firm in Bangalore and started its operation in 2015 as a regional airline. It connected tier II and tier III cities in India using ATR 72-500 aircraft. On July 27, 2016, it ceased its operations due to a massive financial crunch and failure to pay to the plane leasing companies. In November 2016, the DGCA cancelled its flying licence after the carrier failed to provide its revival plan. In January 2017, it made an agreement with Fly easy, a regional airline in Bangalore to sell its 74% stake and was scheduled to restart its operations in 2017.

**TruJet**

TruJet was a regional scheduled budget airline incorporated as Turbo Mega Airways Private Limited, in Hyderabad, in 2013. It started its scheduled services in July 2015. A group of investors with experience in aircraft ground handling services, the movie business, etc., promoted TruJet. It focussed on connecting tier-II cities using ATR 72-500 aircraft. It had a fleet size of three aircraft by 2016.

**Zoom Air**

Zoom Air was incorporated as Zexus Air Service in 2013 in Delhi. In 2014 the airline got the NOC from DGCA. On February 15, 2017, it started its first scheduled service from Delhi to Durgapur, a city in West Bengal, with Bombardier CRJ 200 aircraft. It positioned itself as a full-service regional airline and had plans to connect mostly unserved and underserved cities in India.

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